

KiwiSaver and Superannuation Schemes

What To Look For

(helpful comments from Civic Assurance)

First things first! *Let's just make sure we are all on the same page when we consider "what is superannuation about?"*

My take on this is that superannuation is a structured form of regular savings where I am putting money away into an account that is specifically set up for my later years – as opposed to money I am putting into a bank account that I plan to use for a holiday, spending on the house, or replacing my car etc. If I have a financial hiccup on the way through, then I can stop paying into my superannuation account for a while, but what's in the account I expect to keep there for later years. This is my long-term savings, and as long as I don't allow my long-term savings to be diluted by short-term cash needs then things should work out as intended.

Be confident you can have faith in your Provider *Know who stand behinds the scheme of your choice. Check out their history. Establish what the purpose of their business is – is it there to help them or help you? See if they have been awarded a credit rating and what their business structure is. Be cautious about investing money for perhaps 40 years based on just one clever advertisement or one carefully chosen year's good investment performance.*

Civic is owned by 67 local authorities, has been in business for more than fifty years and exists to serve Local Government. Our brief is to provide the best superannuation scheme we can for our Local Government Family, at the most competitive price that is supportable and sustainable – we are not seeking at your expense to maximize our profit!

Scheme Trustees *Please, please, please ensure that your scheme applies independent governance.*

SuperEasy has six trustee directors: two appointed by Civic, two by LGNZ, one by SOLGM and one by the CTU. Civic is not tied or linked to any one investment manager or an in-house investment team. As such, the scheme's trustees regularly take professional advice and receive performance reports from and about their selected fund managers. The trustees also take regular professional advice to review the asset allocation of the funds with the aim of achieving the optimum-long term outcome for all members over their life time with the schemes.

What will be happening in the investment markets in 12 months time? *Who knows? We can make all the predictions under the sun but nobody really knows. We therefore consider it is essential to offer members a diversified investment portfolio.*

Within each of our SuperEasy funds there is a mix of growth and income assets that has a diversification spread across a range of asset classes including overseas equities (hedged and un-hedged), Trans-Tasman equities, property, overseas and New Zealand fixed interest securities and cash. This "risk profile" can be balanced to reflect your current and future individual circumstances. The two main Fund Managers that SuperEasy currently uses are AMP Capital Investors Ltd and ASB Group Investments, but will we still be using them in 10 years time? That will depend on how they perform and what their competitors can offer in the future. This is why it is desirable that the trustees of the scheme apply independent governance and are not tied or linked to any investment manager or in-house investment team. The SuperEasy trustees have that independence.

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Mix and match. *Can I get more flexibility?*

I think KiwiSaver is great provided you can afford to put away 2% (to become 3% from 1 April 2013) of your gross salary and don't mind locking this amount away until age 65. However, there are many of us who are, or will be, wishing to put away a far greater amount than 2% or 3% of gross salary towards our retirement savings, particularly if we are a late starter to the superannuation game. That is why I think it is good if your KiwiSaver scheme of choice can offer a complementary employer scheme alongside it.

What does it cost to belong to the Club? *Sure it goes without saying that we all want the lowest fees for our superannuation scheme, but I think it is also just as important that there is transparency describing the cost structure.*

Civic only has a Management Fee and an Administration Fee for its schemes; there are no set-up charges, no switching fees, etc and unlike many other schemes will not pay commission or join-up fees to so-called "independent advisers". Civic will even waive the Administration Fee for its SuperEasy employer scheme if you are working for a local authority. The only other cost that may be payable is some within-fund fund manager charges such as trusteeship and audit fees, which if applicable would typically average less than 0.1% p.a.

We all enjoy a good Pie! *Make sure your scheme of choice, both for your KiwiSaver and employer scheme are PIE compliant, especially with the new Prescribed Investor Rates (PIR) that came into effect on 1 October 2010. If they are, then your PIR is the rate of tax that is charged on your investment earnings (your PIE income) in the scheme. Depending on the level of your taxable income you can have your earnings in the schemes taxed at 28%, 17.5% or 10.5%.*

The less tax paid on your earnings means there will be more in your account balance so it is important that you have the correct PIR recorded against your account. Both our SuperEasy KiwiSaver Scheme and SuperEasy employer schemes are PIE compliant. Not all superannuation schemes are PIE compliant.

Yes there is life beyond 65. *If I have built up a nice lump sum by the time I am 60 or 65 I would like to think I have another 25 or 20 years to enjoy it; hopefully more! However, having saved hard over my working life, what will I do with my funds once they become available when I have stopped work?*

SuperEasy has been designed to allow me the option of continuing to use it to manage my savings throughout my retirement. My membership does not stop when I stop work or retire. From the time I have access to my SuperEasy funds the scheme has essentially become a tax-paid bank account held in trust in my name and I still continue to enjoy Civic's low wholesale charging structure.

"I consider these to be essential ingredients when looking at any KiwiSaver or Superannuation scheme, which I hope you find helpful"

Ian Brown, Superannuation Manager, Civic Assurance.